



SAN FRANCISCO PLANNING DEPARTMENT

To: Board of Supervisors Land Use and Transportation Committee (Supervisors Farrell, Peskin, and Tang) and Supervisor Kim

From: Steve Wertheim, Planning Department Staff
steve.wertheim@sfgov.org / (415) 558-6612
Dan Adams, Deputy Director, Mayor's Office of Housing and Community Development
dan.adams@sfgov.org / (415) 701-5616

Re: Central SoMa Plan – Housing Strategy – Response to Questions from 10/23/17 Hearing

Date: December 7, 2017

1650 Mission St.
Suite 400
San Francisco,
CA 94103-2479

Reception:
415.558.6378

Fax:
415.558.6409

Planning
Information:
415.558.6377

The purpose of this memo is to respond to questions received at and subsequent to the October 23, 2017 Land Use & Transportation Committee hearing regarding the Central SoMa Plan's housing strategy. This memo includes an analysis of the total housing development in Central SoMa, the affordability of units (by quantity and depth of affordability), and sites for affordable units.

I. Executive Summary

- There are 7,060 new housing units expected within Central SoMa
- The Central SoMa Plan will generate 2,670 affordable housing units, which represents 38% of total projected units.
- The City has already identified locations for 53% (1,425) of expected affordable units, and has developed a strategy for both identifying and securing sites for the additional units.

II. Total Housing Development in Central SoMa

Based on input received at and subsequent to the October 23rd informational hearing, the total number of units expected to be built in Central SoMa has been adjusted to 7,060, as follows:

- 6,150 units from buildout on "soft sites" per the proposed zoning;¹
- 525 units on these soft sites from use of the State Density Bonus;²

¹ Methodology described in detail in the [first Central SoMa housing memo](#) to the Land Use & Transportation Committee, dated October 18, 2017, and appended here for reference.

² The 525 unit number is derived as follows: 1) Of the 6,150 units, 50% (3,075) are projected to be in buildings that are likely to provide inclusionary BMR units on-site (based on recent evidence in SoMa for implementation of Section 415 for of residential buildings of similar scale as anticipated in Central SoMa). 2) We assume that up to 75% of those buildings (i.e., 2,300 units) will choose to use the State Density Bonus (which presumes that, for some, the additional process, scrutiny, and potential change in construction type do not merit the increase. Because utilization of the State Density Bonus is nascent,

- 300 units carved out of office development sites.³
- 85 units on 4th and Folsom (MTA site)

III. Affordability of Units (by Quantity and Depth)

Based on input received at and subsequent to the October 23rd informational hearing, the total number of affordable units expected to be built due to the Central SoMa Plan has been adjusted to 2,670, as follows:

- 740 units built on-site to meet the requirements of the Inclusionary Housing Program (Planning Code Section 415);⁴
- 300 units built off-site to meet the requirements of the Inclusionary Housing Program;⁵
- 845 units built via the in-lieu fee paid to meet the requirements of the Inclusionary Housing Program;⁶
- 700 units built via the in-lieu fee paid to meet the requirements of the Jobs-Housing Linkage Fee (Planning Code Section 413);
- 85 units at 4th and Folsom funded from in-lieu fees that have already been collected by the City.

In terms of depth of affordability, 82% (2,180) of affordable units built will serve very low and low income residents, up to 60% Area Median Income (AMI). This number represents the 1,630 units funded by fees collected by the City,⁷ as well as 550 units of units provided both on- and off-site, per the requirements of Planning Code Section 415. The remaining 18% (490) of the affordable units would be split between moderate-income residents (265 units) and middle-income residents (225 units), in keeping with the AMI requirements for on-site and off-site development contained in Planning Code Section 415.⁸

it will likely take a few years to understand how this program plays out in practice). 3) Projects producing those 2,300 units are assumed to receive on average a 23% increase in development potential, resulting in an additional 525 units. (The 23% additional development capacity is reflective of the relationship formula for granting bonuses contained in California Government Code Sections 65915-65918 and the Inclusionary Housing Requirements of Planning Code Section 415.

³ Methodology described in detail in the [first Central SoMa housing memo](#) to the Land Use & Transportation Committee, dated October 18, 2017.

⁴ Methodology described in detail in the [first Central SoMa housing memo](#) to the Land Use & Transportation Committee, dated October 18, 2017.

⁵ Ibid. Note that off-site delivery of affordable units is relatively rare, but is currently being proposed by the market-rate development at the corner of 4th and Townsend Streets.

⁶ Ibid. Note that 165 of these would be expected from the sites participating in the State Density Bonus Program, meeting the requirements of Planning Code Section 415.

⁷ I.e., the 845 + 700 + 85 from the list above. Funding sources utilized by the City to supplement in-lieu fees generally require that new units not exceed 60% of AMI.

⁸ Of the moderate income units, 195 would be built to meet on-site requirements and 70 to meet off-site requirements. Of the middle-income units, 155 would be built to meet on-site requirements and 70 to meet off-site requirements.

The resulting breakdown of affordable units would be as follows:

- Total affordable units: 38% (2,670 out of 7,060)
 - Very low-, low- and moderate-income units: 35% (2,445 out of 7,060)⁹
 - Middle-income: 3% (225 out of 7,060)

IV. Sites for Affordable Housing

As discussed in the October 18th memo (attached below), the City has already identified locations for 1,425 newly built units of affordable housing. This represents 53% of the expected affordable units to be built (and/or preserved) over a period of approximately 25 years. Subsequent to the October 23rd informational hearing, MOHCD staff has conducted a review of soft sites identified by the Planning Department within South of Market to verify sufficient capacity to create the affordable housing supported with funding through the Plan.

MOHCD's analysis included the following components:

1. Review of Planning Department's soft site map, which includes approximately 470 sites of various sizes;
2. Analysis of sites with conditions favorable to affordable housing development, including square footage, layout, and zoning;
3. Evaluation of smaller properties with potential for aggregation to create sites of sufficient size to meet production requirements;
4. Identification of SALI sites for which affordable housing might be appropriate with rezoning;
5. Confirmation of opportunities for acquisition and preservation under MOHCD's Small Sites Program.

MOHCD concludes that there is more than sufficient development capacity in SOMA with rezoning under the Plan to fulfill the remaining 1,245 units of estimated affordable housing production.

In terms of acquisition strategy, MOHCD has an established track record of proactive site acquisition. We work closely both with community-based affordable housing partners, tenant organizations, and our Department of Real Estate, as well as other City departments, to identify sites both for new construction and preservation. While MOHCD would not be in a position to pursue any acquisitions with funding generated through the Plan until such funds were committed either as inclusionary in lieu or jobs/housing linkage fees, we have already initiated a review of potential sites per the above analysis, and in coordination with community representatives.

⁹ Thereby exceeding the 33% affordability target for very low, low, and moderate-income households established in 2014's Proposition K and contained in the Central SoMa Plan as Objective 2.3.



SAN FRANCISCO PLANNING DEPARTMENT

To: Board of Supervisors Land Use and Transportation Committee (Supervisors Farrell, and Peskin, and Tang) and Supervisor Kim

From: Steve Wertheim, Planning Department Staff
steve.wertheim@sfgov.org / (415) 558-6612

Re: Central SoMa Plan – Strategy for New Housing

Date: October 18, 2017

1650 Mission St.
Suite 400
San Francisco,
CA 94103-2479

Reception:
415.558.6378

Fax:
415.558.6409

Planning
Information:
415.558.6377

The purpose of this memo is to convey the Central SoMa Plan’s strategy for new housing entitled after adoption of the Plan. This memo contains the anticipated amount of new housing over the Plan “life” (25 years), the amount, location, and percentage of affordable housing, and additional considerations affecting housing.

Executive Summary

- The total amount of housing expected to be developed because of the Central SoMa Plan is 7,625 units over a 25-year period.
- This includes 5,125 market-rate units and 2,500 units affordable to people making very-low, low, and moderate incomes.
- The resulting 33% affordability meets the targets established by 2014’s Proposition K and by the Central SoMa Plan.
- The affordable units are funded by our Inclusionary Housing Program (1,720 units), our Jobs-Housing Linkage Fee (700 units), and City investment at 4th and Folsom (80 units).
- The City has already identified locations for 1,420 (57%) of the potential affordable units

Amount of Total Housing

To estimate the development potential in Central SoMa, Planning Department staff conducted a parcel-level analysis of the 751 parcels in the Plan Area, based on the Plan’s proposed zoning, height limits, bulk controls, and other existing and proposed regulations. After determining the maximum envelope of development potential, staff assessed which sites are likely to actually be developed. A parcel was considered to be a potential development site if it met *all* of the following criteria:

- The existing built development on the parcel represents less than 30% of the development potential;¹
- The site contains two or less existing residential units;²
- The site is not publicly owned;³
- The site is not already identified or designated as a significant historic resource, either individually (e.g., landmark) or as a contributor to a larger district;
- The site is not proposed by the Plan to become designated as a historic landmark or as a significant contributor to an existing or proposed district;
- The site is not in the area proposed to remain zoned SALI (i.e., the area bordered by 4th, 6th, Harrison, and Bryant Streets).

This analysis determined that there is potential for approximately 8,300 new units within the boundaries of the Central SoMa Plan Area. However, it is unlikely that all of these sites will be developed over the Plan “life” (25 years), and even those may not all be built to their full capacity. As such, Planning estimated 75% buildout of residential development capacity, which would yield potential for approximately 6,150 new units of housing within the boundaries of the Central SoMa Plan Area. As discussed below, these new units would generate funding for an additional 1,475 affordable units, which could be provided elsewhere in SoMa, bringing the total number of housing units affiliated with the Plan to 7,625. Using the same buildout methodology described above, staff determined that there is potential for approximately 8.5 million new square feet of non-residential development.

Amount of Affordable Housing

Development projects in Central SoMa will be subject to the existing requirements of the Planning Code, including the Inclusionary Affordable Housing requirements of Section 415 (for residential development) and the Jobs-Housing Linkage requirements of Section 413 (for non-residential development). The requirements of Section 415 vary based on 1) project size, 2) tenure, 3) fulfillment option and 4) timing.⁴ For purposes of this analysis:

¹ The 30% standard is routinely used by the Planning Department as a benchmark of whether a building has enough development potential, in comparison to the embedded value of the existing structures and uses, to warrant the expenditure of attaining entitlements and redeveloping the building.

² Current City law establishes high barriers to the demolition of any units, particularly for rent-stabilized units. However, it is foreseeable that some projects where the residents are the property owners could proceed if they can establish a clear net benefit, such as a substantial increase in the number of permanently affordable units.

³ Generally, public parcels in Central SoMa are not strong candidates for new housing. Publicly-owned sites in Central SoMa include freeway rights-of-way, a fire station, and a public park. They also include an SFPUC facility that is proposed to contain affordable units as part of the 598 Brannan St. development, as discussed below.

⁴ Requirements only apply to projects larger than 9 units. Projects of 10-24 units have reduced requirements. Ownership projects have a requirement that is 2% higher than rental projects. The requirements for projects that provide units on-site are lower than projects that provide units off-site or pay the in-lieu fee. For projects providing units on-site, the requirements escalate over the first 10 years to reach a maximum of 26% for ownership projects and 24% for rental projects.

- Project size was calculated based on the methodology described above;
- Tenure was assumed to be 50% ownership and 50% rental;⁵
- Fulfillment was assumed to be 50% on-site and 50% in-lieu/off-site;⁶
- Projects were assumed to be built on an even pace over the 25 year period.⁷

Based on the assumptions above:

- The application of the requirements of Section 415 to residential development will result in 1,720 affordable units (740 on-site and 980 off-site or in-lieu).
- The application of the requirements of Section 413 to non-residential development will result in approximately 700 units.⁸
- Additionally, the City-owned parcel at the northwest corner of 4th and Folsom Streets has been identified as a location for a new affordable housing development for up to 80 units. This site has funding identified through existing City sources.

As a result, it is anticipated that there would be 2,500 new affordable units constructed within and/or funded by development within Central SoMa.

Location of Affordable Units

The Central SoMa Plan would require that all 2,500 affordable units are built within SoMa.⁹ Many sites for affordable housing have already been identified, as follows:

- On-Site: 740 on-site affordable units built in new development (as discussed above);
- 100% affordable developments that are already in process and/or have active applications:
 - 80 units at 4th and Folsom (City-owned land, as discussed above);
 - 200 units at 921 Howard Street (partnership between TNDC and Tishman Speyer as off-site for the Tishman Speyer project at 4th and Townsend Streets);
- As part of other sites owned by affordable housing non-profits:
 - 100 units at the southwest corner of 5th and Howard (TNDC)¹⁰
- As part of larger development projects with active applications:

⁵ This is meant to be a conservative estimate, as the precedent for comparably sized and located projects is that the majority will be ownership, which would thus result in higher affordability rates than estimated here.

⁶ This is meant to be a conservative estimate, as the precedent for comparably sized and located projects is that they pay the in-lieu fee, which would thus result in higher affordability rates than estimated here.

⁷ Actual construction rates will be more “clustered” around periods with strong market conditions. However, given the unpredictability of market conditions, it is not possible to predict when these clusters will occur.

⁸ The fee is expected to generate \$210 million for affordable housing from non-residential development in Central SoMa. The assumption is that the cost to the City of an in-lieu unit is approximately \$300,000. However, preliminary analysis by MOHCD has indicated that the cost to the City may be lower. As such, this estimate is conservative, as the amount of affordable units delivered by this fee may be greater.

⁹ As defined by the area bounded by Market Street, the Embarcadero, King Street, Division Street, and South Van Ness Avenue.

¹⁰ Presuming 50% affordability on a 200 unit project for a site zoned for up to 300 feet in height.

- 100 units as part of the 598 Brannan development (Tishman Speyer) as off-site for their project at 4th and Townsend Streets;
- 100 units as part of the 725 Harrison development (Boston Properties), as land dedication to the City or possibly as developed as part of the project;
- 100 units as part of the 88 Bluxome/Tennis Club Site (TMG/Alexandria), as land dedication to the City or possibly as developed as part of the project;

The result is that locations have already been identified for 57% (1,420) of the affordable housing units anticipated over the life of the Plan. Of these, 1,140 would be built by private development and delivered before or at the same time as the affiliated market rate project.

The remaining 1,080 units could likely be contained in approximately 11 sites.¹¹ Such sites could include one or more of the publicly-owned sites in SoMa. It is anticipated that other sites would be identified or acquired over the 25 year life of the Plan, as funding for affordable housing accumulates.

Percentage of Affordable Housing

In 2014, San Francisco’s voters passed Proposition K, which established City policy that 33% of all units built or rehabilitated between then and 2020 be affordable to low- and moderate-income households. Objective 2.3 of the Central SoMa Plan reiterates this goal, but extends it over a longer timeframe. Based on the strategies outlined above, the Central SoMa Plan will achieve this percentage as follows:

- 2,500 affordable units
- 5,125 market-rate units, calculated as follows:
 - 6,150 units on residential sites within Central SoMa, of which
 - 1,025 are affordable units (740 on-site units and 285 units from the 4th and Folsom, 921 Howard, and 5th and Howard locations¹²)

Other Housing Considerations

There are several additional factors that could potential enhance the amount and delivery of housing in Central SoMa, and that will merit further conversation as the Central SoMa Plan moves through the adoption process.

State Density Bonus

The State Density Bonus program allows additional development capacity for residential development providing on-site affordable units. There are substantial portions of the Plan Area that are not proposed for upzoning and where housing could be built, and would be eligible for application of State Density Bonus. It is yet to be determined whether and how this provision might apply to the portions of Central

¹¹ Assuming an average size of 100 units per affordable housing project.

¹² Assuming that the sites, if not dedicated to higher percentages of affordability, would have yielded 20% on-site affordability.

SoMa that receive substantial increase in development capacity due to the Plan.¹³ It is also unclear how many sites will avail themselves of this program, given the parameters of the program.¹⁴ That being said, an analysis using the methodology discussed above suggests that there could be the potential for up to 1,000 more units due to the Plan if all projects providing on-site inclusionary units invoke the State law. Additionally, any projects that use the State Density Bonus are required to pay an in-lieu fee of 33% (for ownership) or 30% (for rental) for the “bonus units” per current Planning Code requirements, which means that the overall percentage of affordable units in the plan area is likely to stay the same (i.e. 33% overall) regardless of use of the State Density Bonus.

SB35 and AB73

In the past several weeks, Governor Brown signed multiple pieces of legislation that affect housing production. Potentially the two most relevant are SB35 and AB73. Both of these bills facilitate expedited production of housing. In the near term, SB35 will make approval of affordable housing projects in San Francisco “ministerial,” which means that they will not need to undergo CEQA review or seek discretionary approvals from City bodies such as the Planning Commission.¹⁵ AB73 allows cities to create “Sustainability Districts” by ordinance in which Code-compliant housing projects can opt to be approved ministerially if they agree to prevailing wage requirements and meet other requirements, including overall affordability requirements for such districts. Additionally, the State would provide the City with incentive payments for both the adoption of the district and completion of the target buildout of housing in the district. The City is currently evaluating the details of this new State law. If the Board were to declare Central SoMa a “Sustainability District” it would allow for expedited approval and delivery of housing construction in the area as well as provide the City additional funding.

The Mayor’s Executive Directive

On September 27, 2017, Mayor Lee issued an Executive Directive to help facilitate the creation of 5,000 new and rehabilitated housing units a year in San Francisco. The Directive directs City departments to expedite housing approvals at both the entitlement stage and the post-entitlement permitting stage, including:

- Setting specific approval deadlines;
- Creating an accountability process;
- Requiring Departments to submit process improvements to expedite entitlement (by December 1, 2017) and post-entitlement (by January 1, 2018).

¹³ Many sites are being granted development capacity increases substantially exceeding the maximum 35% bonus currently provided for under State law. It may be determined that the “Bonus” is incorporated into the upzoning itself.

¹⁴ To date, only a handful of projects building on-site inclusionary housing in the City are seeking to invoke the State law out of a much larger pool of eligible pipeline projects.

¹⁵ SB35 requires cities that do not meet their Regional Housing Needs Targets for market rate or below-market rate housing to approve such development ministerially. Because San Francisco currently meets its targets for market rate units, SB35 will not likely apply for the next several years, if at all.

The intent of this Directive is to reduce approval timeframes by nearly half. Given the timeline of the Directive, specific proposals are already being developed by City departments. Fulfilling this Directive may require legislation for consideration by the Board of Supervisors.